

VZCZCXRO7789  
RR RUEHRN  
DE RUEHMD #2065/01 3090920  
ZNR UUUUU ZZH  
R 050920Z NOV 07  
FM AMEMBASSY MADRID  
TO RUEHC/SECSTATE WASHDC 3742  
INFO RUEHSS/OECD POSTS COLLECTIVE  
RUEHLA/AMCONSUL BARCELONA 3160

UNCLAS SECTION 01 OF 02 MADRID 002065

SIPDIS

SENSITIVE  
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EUR/WE  
EEB/efd/OMA

E.O. 12958: N/A  
TAGS: [ECON](#) [ECPS](#) [EFIN](#) [EIND](#) [ELAB](#) [EPET](#) [SOCI](#) [SP](#) [EINV](#)  
SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -  
OCTOBER 29 - NOVEMBER 2

MADRID 00002065 001.2 OF 002

#### Table of Contents:

ECON: October inflation number worse than expected at 3.6%  
ECON/ELAB: Unemployment and employment both rise  
ECPS: GOS appeals EU's 152 million euro fine on Telefonica  
EFIN: Morocco largest recipient of remittances  
EFIN: Spanish companies have 6 billion euros in tax havens  
EINV: Mapfre to buy 20th largest U.S. insurer for \$2.2 billion  
EINV/EPET: Repsol to sell 200 gas stations in Chile  
SOCI: Spaniards Living Longer

#### OCTOBER INFLATION NUMBER WORSE THAN EXPECTED AT 3.6%

11. (U) Second Vice President and Finance Minister Pedro Solbes said the announcement of the European-harmonized inflation rate was a "bad figure without redeeming features." The 3.6% was an unexpectedly steep increase from the September figure of 2.7%, which itself was already 0.6% above the euro zone average. Higher fuel and food prices are to blame. This represents a continuing erosion in Spain's relative competitive position. Assuming the official consumer price index shows a similar jump, as is expected, the higher inflation means that government expenditure on pensions and salaries will rise more than had been anticipated. (Comment: It is too early to tell whether the higher prices will affect the March 2008 national elections, but this is not good news for the GOS. Opposition politicians and newspapers decried what they described as the 30% increase in inflation.) (All newspapers, 10/31/07)

#### UNEMPLOYMENT AND EMPLOYMENT BOTH RISE

12. (U) Spain's unemployment rate rose from 7.95% to 8.03% in the July-September quarter, bringing unemployment above its level of a year ago for the first time since early 2004. The increase was not due to jobs being destroyed but to an increase in the number of people entering the labor market. Labor Minister Caldera called the news "reassuring" because the number of people working increased by 143,000 in the quarter, leading to a record 20.5 million people employed. The female unemployment rate of 10.53% was well above the male rate of 6.21%. (El Pais, 10/27/07)

#### GOS APPEALS 152 MILLION EURO EC FINE ON TELEFONICA

13. (U) This week, the GOS formally appealed the European Commissioner for Competition's decision to fine Telefonica \$152 million euros for abuse of its dominant position in the

wide band-width market (charging competitors rates that were too high to allow competitive profit margins). In its appeal, the GOS argued that the fine undermines the credibility of Spain's telecommunications regulatory body, the CMT, which had issued prior approval for the Telefonica rates on which the EC later based its sanction. In its brief to the EU's Court of First Instance, the GOS added that the fine generates consumer and business uncertainty, given that any decision taken by CMT could later be invalidated by the EC. The fine is the second largest imposed by Brussels, surpassed only by the 497 million euro fine of Microsoft. (All Media, October 31)

#### MOROCCO LARGEST RECIPIENT OF REMITTANCES

14. (U) According to an EC study, in 2004 921 million euros in remittances were sent from Spain to Morocco. Colombia received 658 million euros, Ecuador 571 million, Romania 310 million, Bolivia 139 million, and the Dominican Republic 127 million. Between 40 and 99 million were sent to each of Brazil, Peru, Algeria and Venezuela. (Comment: Like the U.S., Spain is a significant source of remittances to a number of developing countries. Remittances from Spain are responsible for a relatively high percentage of GDP for a number of countries, especially Ecuador and Bolivia.) (El Pais, 10/29/07, Source: European Commission)

#### SPANISH COMPANIES HAVE 6 BILLION EUROS IN TAX HAVENS

15. (U) The Cayman Islands, Panama, the Virgin Islands, and Bermuda are the top destinations in that order. The money is not necessarily illegally acquired, nor is it necessarily invested illegally in tax havens. However, the OECD and Spain do believe this money needs to be better regulated and monitored. (El Pais, 10/29/07)

#### MAPFRE TO BUY 20TH LARGEST U.S. INSURER FOR \$2.2 BILLION

MADRID 00002065 002.2 OF 002

16. (U) Mapfre, Spain's largest insurance company, agreed to buy the Massachusetts - based insurer Commerce for 2.2 billion dollars. Commerce, which specializes in auto and homeowner's insurance, is the 20th largest insurer in the U.S. Mapfre will finance the purchase with a capital expansion of 500 million euros, 800 million euros in new debt, and over 200 million euros in internal resources. The price is around 20 percent above Commerce's stock market capitalization. Mapfre now owns five companies in the continental U.S. and one in Puerto Rico, in addition to operations in 36 other countries.

#### REPSOL TO SELL 200 GAS STATIONS IN CHILE

17. (U) Spain's leading petrochemical company, Repsol, announced the imminent sale of its 200 gasoline stations in Chile to Colombia's Terpel. According to Repsol representatives in Spain, this sale marks the beginning of a Repsol strategic realignment that will focus more on North Africa, the Middle East and the Gulf of Mexico. Repsol is expected to unveil its new strategic plan in the coming weeks. (Expansion, October 31)

#### SPANIARD LIVING LONGER

18. (U) Spaniards' life expectancy at birth has increased by two years between 1995 and 2005 and has surpassed 80 for the first time, according to the National Statistics Institute. Female life expectancy is 83.5 years, while male expectancy is 77 years. These figures are among the highest in the EU. (El Pais, 10/30/07)  
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